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TAGS: [PGOV](#) [PINR](#) [RS](#)
SUBJECT: RE-SHUFFLE ADVANCES SUCCESSION PROCESS

Classified By: Ambassador William J. Burns: 1.4 (b, d).

¶1. (C) President Putin's late February 15 government re-shuffle has brought presidential contender Sergey Ivanov to the same starting line as his rival Dmitriy Medvedev, relieved him of the albatross that is the Ministry of Defense, and given him issues that could potentially resonate with the Russian electorate. With a few swipes of the pen, Putin signaled to all who the chief contenders for his job will be and demonstrated that he intends to be very much in charge of the succession as the last year before his departure progresses. End summary.

Putin in Control

¶2. (C) The late-evening February 15 decision to make Sergey Ivanov Dmitriy Medvedev's bureaucratic equal as First Deputy Prime Minister was classic Putin and inaugurated the latest phase of his managed succession strategy. By relieving Ivanov of the unreformable Ministry of Defense and awarding him responsibility for part of the civilian sector of the economy, Putin telegraphed that Medvedev and Ivanov are the leading candidates to succeed him when his term expires in ¶2008. The re-shuffle also showed that, as he predicted in his February 2 press conference, Putin intends to remain hands-on until the end of his term and will continue to rely on a loyal St. Petersburg cohort to navigate the final transition to a new President in 2008. While it was the most significant change in government since Medvedev and Ivanov were named First Deputy Prime Minister and Deputy Prime Minister in November 2005, Ivanov's elevation had been planned well in advance.

What Does This Mean for Ivanov?

¶3. (C) We now have the makings of a two-person race. Putin's decision frees Ivanov to excel in what interests him --arms exports, aviation, economic diversification, and innovative technologies-- while allowing him to shuck responsibility for a portfolio that was doing little to advance his presidential aspirations. It also puts Ivanov on an equal footing with rival Medvedev, and gives him a portfolio that rivals Medvedev's in its ability to get him on to television screens with good-news stories of interest to mainstream voters. As if in anticipation of the February 15 announcement, the Ambassador found Ivanov at a February 5 meeting extremely relaxed, self-confident, and in campaign mode.

Medvedev?

¶4. (C) Putin's promotion of Ivanov evens the score with Medvedev, and derails the expectations of observers who,

increasingly, were assuming that Medvedev had the upper hand in the succession struggle. In a pre-shuffle conversation on February 15, former Chief-of-Staff Aleksandr Voloshin told the Ambassador that both Ivanov and Medvedev were Putin's candidates for the presidency and thought it just possible that, if Putin were satisfied with their loyalty, they would compete equally for office. Voloshin, as have others, noted that Medvedev and Ivanov get along well personally. He now thought that Ivanov's stock was perhaps rising more quickly than Medvedev's. Others have taken Ivanov's closer personal relationship with Putin --the President called twice during the Ambassador-Ivanov February 5 meeting-- as possibly meaning that Ivanov could get the nod, but the February 15 decision does little more than put each in the starting blocks as the final year of the succession process gets underway.

MOD Gets A Manager

15. (C) Succeeding Ivanov as Defense Minister will be Federal Tax Service (FTS) Chief Anatoliy Serdyukov. Serdyukov, who hails from St. Petersburg like Putin, Ivanov, and Medvedev, has demonstrated his loyalty to the President in his three years at the FTS, which he reputedly turned into an effective, if closed, structure which was a key player in the Yukos affair. Council on Foreign and Defense Policy Analyst Vitaliy Shlykov welcomed Serdyukov's financial expertise, management experience, authoritarian style, and outsider status as key to addressing the "chaos" inside the MOD. Also enhancing Serdyukov's effectiveness, said Shlykov, should be his absolute loyalty to Putin and a lack of the presidential aspirations that had so distracted Ivanov during his tenure.

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Serdyukov's five years as head of a state-controlled furniture store in the late '80s strongly suggests, however, that he knows much about corruption at first hand.

Key Economic Players to Stay

16. (C) The promotion of Head of the Presidential Chief-of-Staff Sergey Naryshkin to the post of Deputy Prime Minister for economic matters could signal greater Russian White House engagement in foreign and economic issues. The Prime Minister's economic team has been chronically understaffed, and the entry of Naryshkin and Ivanov into the economic realm could reinforce its standing and enhance its influence.

17. (C) At present, we see no threat in the appointments to either Kudrin or Gref. Under Kudrin, Russia has accumulated record budget surpluses, seen declining inflation, and lower unemployment. With macroeconomic stability key during an election year, Kudrin's departure seems very unlikely. Ditto Gref's. His mandate to get Russia into the WTO makes it very unlikely Gref will be left on the sidelines as the transition year progresses.

18. (C) Some observers, on the other hand, have viewed the promotion of Naryshkin, a native of St. Petersburg and a longtime associate of Putin, as a possible step toward grooming him for higher office; perhaps the prime ministership, when power changes hands in 2008.

Comment

19. (C) Surprise is a Putin hallmark and a key card to play in keeping Kremlin circles loyal and dependent on him as his term enters its final year. Putin has given another clear signal that he alone will drive the succession process even

if, ironically, that produces a race in which there is real
competition between two "equal" first deputy prime ministers.
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